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Legislative Bulletin……………………………..………November 8, 2005

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Title II: Committee on Education and the Workforce

Background: Under the budget resolution (H. Con. Res. 95), the House authorizing committees were instructed to find savings to reduce the growth in mandatory spending. The House Committee on Education and the Workforce was originally tasked with finding $12.7 billion in savings as part of a $35 billion package of savings over five years. Once the Republican Conference adopted the more ambitious goal of $50 billion in savings over five years, the Committee was expected to find additional savings.

Savings to Taxpayers: According to CBO, Title II would reduce federal spending by $20.4 billion over five years (see Table 1). Such savings amount to 37.9% of the $53.9 billion deficit reduction package.

Table 1. Savings By Subtitle, Outlays In Millions

Committee on Education and the Workforce	2006	2006-10
Higher Education Act Amendments	-7,525	-14,470
Higher Education Relief	210	210
Pension Benefit Guaranty Corporation	-363	-6,162
Total Savings	**-7,678**	**-20,422**

Committee Action: On October 26, 2005, the House Committee on Education and the Workforce reported its submissions to the House Budget Committee to be compiled into one reconciliation package along with the submissions of the other authorizing committees. On November 3, the Budget Committee reported the package, the Deficit Reduction Act, for consideration by the full House of Representatives.

Summary by Subtitle:

Note: The contents of Subtitle A – reauthorizing TANF (welfare) – is summarized in the legislative bulletin for Title VIII (Ways and Means).

Subtitle B: Higher Education

Table 2. Higher Education Act Savings, Outlays In Millions

	2006	2006-10
Change in Borrower Interest Rates	-5,925	-11,180
Change in 9.5% Loans	-850	-1,795
Change in Lender Fees	-520	-1,825
Change in Lender Insurance	-385	-915
Change in Mandatory Administrative Costs	17	-2,206
Changes in Guaranty Agencies' Share of Collections	-270	-495
Change in Borrower Origination Fees & Ins. Premiums	-90	2,250
Increased Loan Limits	0	1,585
Other Reforms	192	409
Interaction Effects	306	-298
Subtotal - Student Loan Reforms	**-7,525**	**-14,470**

Part 1 – Amendments to the Higher Education Act of 1965

- **50/50 Rule:** Modifies the 50/50 rule pertaining to the definition of an institution of higher education by excluding courses offered via telecommunications services from being considered as correspondence courses. As a result, telecommunications courses would not contribute toward the 50 percent limit on correspondence classes to be considered an institution of higher learning.

- **Loan Fees:** Strikes the authorization for lenders to be assessed and to pay an "administrative cost allowance" and inserts a "loan processing and issuance fee" instead; (up to 1 percent of the unpaid balance per loan each year). Both terms are defined in law, but loan processing and issuance fees appear to be payable only once (upon issuance of the loan) rather than annually (as is the administrative cost allowance).

- **Family Education Loan Program:** Reauthorizes the federal family education loan program (FFELP) through 2008; reauthorizes the federal loan insurance program through 2008; reauthorizes interest subsidized loans through 2012; reauthorizes federal consolidation loans through 2012.

  The federal government operates two major student loan programs, the FFELP and the Federal Direct Loan Program (FDLP). Under the FFELP, loan capital is provided by private lenders. Under the FDLP, the federal government provides loans directly to students and their families using money from the U.S. Treasury. Under current law, FDLP is authorized through December 31, 2005, and is not reauthorized or extended under this legislation. The two programs essentially provide the same set of loans and compete with one another, and debate continues as to which program is more cost effective. When the FDLP was established in 1993, it was argued that it would remove the "middleman" (private institutions) from student loans, and thus save taxpayers money. According to a recent CAGW Report, "participation in FDLP has declined by

29% over the past seven years and the program has a deficit of $13 billion" and has missed its estimated revenue projection every year for ten consecutive years. In 2004, 83% of schools use the FFELP exclusively to provide student loans and 76% of students loans were originated by FFELP lenders. Since FY01, the FFELP has returned more than $12 billion to the Treasury, due to the government overestimating the cost of this program.

For recent Citizens Against Government Waste studies regarding the effectiveness of various federal loan programs, click here and here. To review a CRS Report on federal student loans, click here.

- **Increased Loan Limits:** Increases the federal loan limits from $2,625 to $3,500 for first year students and from $3,500 to $4,500 for students who have completed their first year, the net effect being greater access and options to higher education for students.

- **Consolidation Loan Limits:** Requires, after July 1, 2007, federal consolidation loans to be counted against the applicable limits on the total indebtedness of the student – one of the determinates in qualifying for student loans.

- **Loan Interest Rates:** Eliminates a scheduled switch (on July 1, 2006) from the current variable-rate formula (also known as an adjustable rate - an interest rate that fluctuates based on an underlying index, in this case the 91-day Treasury bill plus 2.3%) to a fixed rate (6.8% for students and 7.9% for parents) for certain federal student loans. Thus, current variable-rate formulas would continue to be in effect at such date, the net effect of which would increase federal income from incoming loan payments. Using the current variable rate formula, a student's interest rate would be approximately 4.7% today (Treasury bill rate of 2.4% plus the 2.3% fixed add-on).

- **Consolidated Loan Interest Rates:** Allows, after July 1, 2006, students with consolidated loans to choose between a variable rate formula (91-day Treasury bill rate plus 2.3% for students or plus 3.1% for parents) and a fixed rate (set at the 91-day Treasury bill rate plus 3.3% for students or plus 4.1% for parents).

- **Interest Rate Caps:** Consolidates several interest rate caps into two – one for student loans at 8.25% and one for parent loans at 9%.

- **Loan Origination Fee:** Requires a new, one-time origination fee of 1% of the principal amount on student loans.

- **Loan Deferment for Military:** Adds a new provision under which military or National Guard personnel who are serving on active duty during a war or other military operation or national emergency may defer their loan payments for up to three years.

- **Loan Forgiveness for National Service:** Provides for loan forgiveness for service in areas of national need and stipulates specific areas of service, including early childhood educators, nurses, foreign language specialists, librarians, certain teachers, and others.

- **9.5 Percent Loans:** Modifies the formula for certain loans funded with financing based on tax-exempt bonds (commonly known as "9.5 Percent" loans) by permanently extending the current policy (due to expire December 31, 2005, when they would revert back to a pre-October 2004 structure which is more costly for the government) and expanding its scope to include all new loans supported with similar financing.

  Historically, these loans have had a different formula for determining payments to lenders. Specifically, the formula for the government's payments to the holders of these loans was 50% of the sum of the 91-day Treasury bill rate plus 3.5% or 9.5%, whichever was higher. The 9.5% has been higher in recent years and become the norm. Thus, this modification would permanently eliminate the "9.5% loan" structure, and lender formulas for these types of loans would conform to the rates paid to other lenders.

- **Lender Fees:** Increases lender fees from .5 to 1.0 percent, charged on all loans at the time of disbursement and increases fees charged annually on outstanding consolidation loans from 1.05 to 1.30 percent under certain circumstances.

- **Default Loan Rate Insurance:** Reduces the percentage that most lenders are reimbursed for defaulted loans from 98 to 96 percent and tightens eligibility requirements for lenders to qualify as "exceptional" to receive 100 percent reimbursement.

- **Discretionary Administrative Expenses:** Eliminates mandatory funding requirement for administrative expenses beginning in 2007, but retains mandatory funding for account maintenance fees. CBO states "Section 458 of the Higher Education Act of 1965 specifies a direct appropriation for the government's administrative costs associated with operating the financial assistance programs for post-secondary education students. The statute does not limit the amount provided for those activities after 2002; thus, this account is an uncapped direct spending account." While some may question whether actual dollar-for-dollar savings will be realized through the appropriations process, this reform is an attempt to address an open-ended entitlement and provide for more annual oversight.

- **Loan Forgiveness for 9/11 Victims:** Provides student loan forgiveness for survivors of victims of the September 11, 2001, attacks, including spouses or parents who are paying loans belonging to or on behalf of a 9/11 victim.

Table 3. Higher Education Relief, Outlays In Millions

	2006	**2006-10**
Cancel repayment of loans for cancelled enrollment periods	70	70
Absorb interest payments for affected borrowers	130	130
Subtotal - Student Loan Reforms	**210**	**210**

<u>Part 2 – Higher Education Relief (for Hurricanes' Katrina & Rita)</u>

- **Gulf Coast Loan Forgiveness:** Cancels repayment (provides loan forgiveness) for all student loans (for both students and institutions) that were disbursed for cancelled enrollment periods at post-secondary schools that were closed due to a Gulf Coast hurricane.

- **Gulf Coast Loan Deferment:** Provides up to a 6-month deferment for repayment of student and parent loans for students affected by a Gulf Coast hurricane (by requiring the federal government pay the interest on those loans for the applicable period).

Subtitle C: Pensions

Table 4. Pension Reform Savings, Outlays In Millions

	2006	2006-10
Increase in Flat-Rate Premiums for Single-Employer Plans	-327	-5,155
Premiums for Certain Terminated Single-Employer Plans	-36	-1,077
Subtotal - Pension Reform Savings	**-363**	**-6,162**

- **PBGC Premiums:** Increases the per-participant flat-rate premiums that the Pension Benefit Guaranty Corporation (PBGC) charges to sponsors of defined benefit pension plans from $19 to $30. Under current law, sponsors of single-employer, defined-benefit pension plans insured by the PBGC are required to pay the agency a premium of $19 per participant per year. Under this legislation, the premium increases to $30 per participant in 2006, and it is indexed to wage growth in 2007 and thereafter. The legislation also grants the PGBC the authority to further increase these premiums by up to 20 percent each year if it determines that such an increase would be necessary to achieve an "actuarially sound" program (PBGC has incurred substantial losses in recent years, according to CBO).

  The last time the PBGC flat-rate premium was increased was 1991, from $16 to its current rate of $19. As of September 30, 2004, the single-employer program accounted for virtually all of the PBGC's deficit. While PBGC's assets grew by 79% from 2001 to 2004 ($39 billion), its liabilities grew far larger 345% ($62.3 billion), for a net position of -$23.3 billion. CBO has estimated that without significant reform, PBGC's single-employer program will run out of cash in 2020 or 2021.

- **PBGC Termination Fee:** Implements a termination premium for single-employer plans that the PBGC takes over on an involuntary or "distressed-termination" basis. The required payments would be $1,250 per plan participant for the three years following the termination. To view a recent CRS report on the financial health of the PBGC, click here.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No. According to CBO, this legislation "would provide assistance to institutions of higher education affected by or serving students affected by the recent hurricanes. It also would authorize funding for student aid and higher education programs, much of which would go to public institutions of higher education. Any costs to those institutions or to state, local, or tribal governments would result from complying with conditions for receiving federal assistance."

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